

Q4 2024 MARKET REPORT



PERRY'S **NEW** PERSPECTIVE

YEAR-END 2024 MARKS THE 19TH QUARTER SINCE COVID FUNDAMENTALLY CHANGED THE WAY WE WORK AND DO BUSINESS. FEW INDUSTRIES HAVE FELT THIS IMPACT MORE ACUTELY THAN COMMERCIAL REAL ESTATE.

DEBATES OVER the merits of remote versus in-person work are still a flashpoint. Industry leaders pack panel discussions – where words like “vibes,” “positive thinking” and “feelings” have replaced typical jargon like “deals” and “effective rent.”

Revisions to economic forecasts are frequent – as conventional indicators such as an inverted yield curve and an uptick in unemployment failed to indicate faltering growth. In a regular cycle,

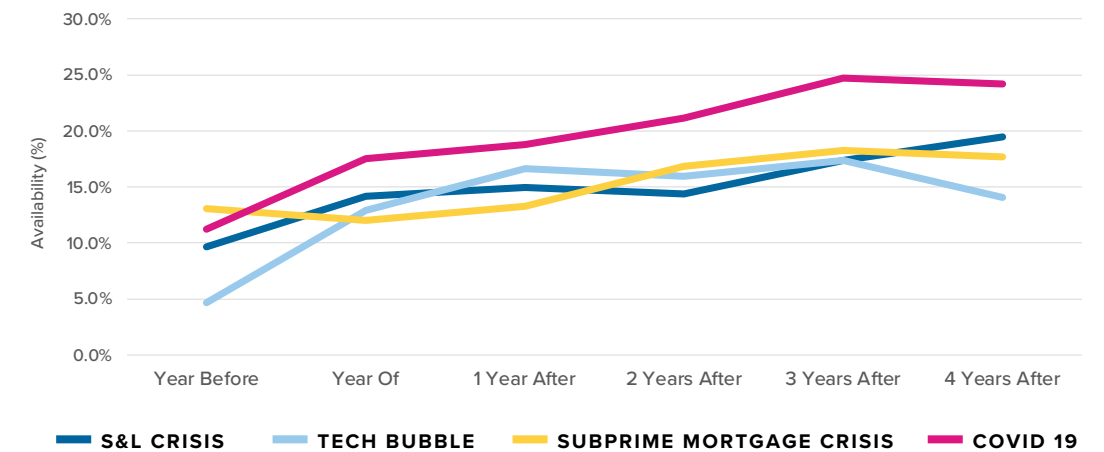
expansion should have slowed as tighter interest rates brought down inflation. **That hasn't happened.**

AT PERRY CRE, WE'VE STOPPED TALKING IN TERMS OF BUSINESS CYCLES.

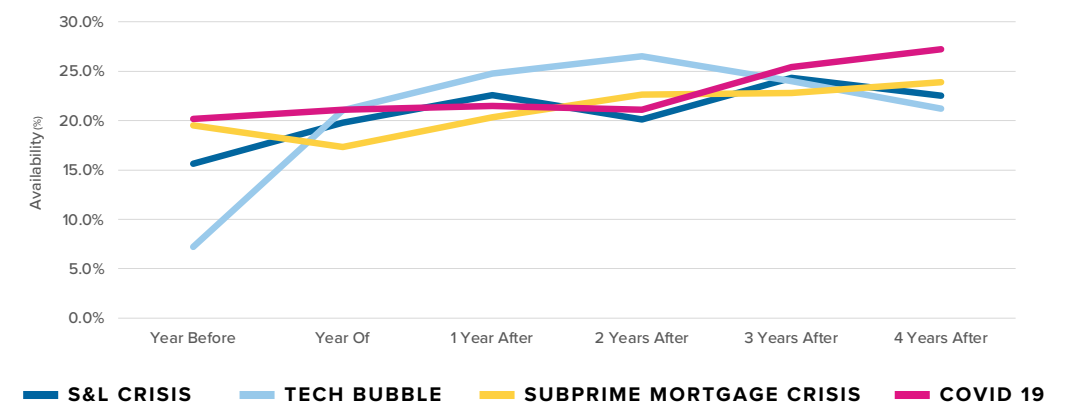
Instead, we're reframing the discussion around the series of structural shifts that are clearly transforming the economy – and the greater Boston commercial real estate market.

LOOKING AHEAD, we anticipate ongoing inflationary pressures – including geopolitical fragmentation and significant spending on the buildout of artificial intelligence (AI) infrastructure. We also think the overlap of an aging workforce and an immigration slowdown will keep wage growth too high for inflation to fall back to the Fed's 2% target.

ECONOMIC EVENTS: OVERALL BOSTON OFFICE AVAILABILITY (%)



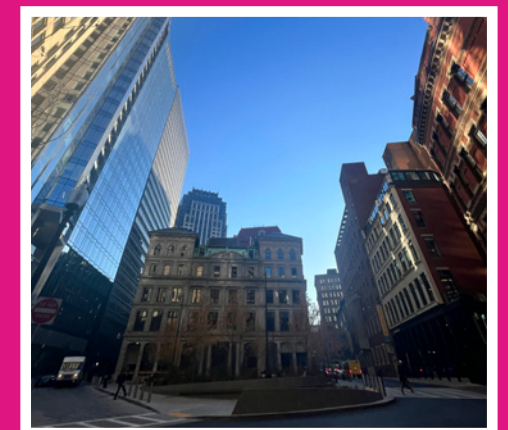
ECONOMIC EVENTS: OVERALL SUBURBAN OFFICE AVAILABILITY (%)



TAKEAWAY

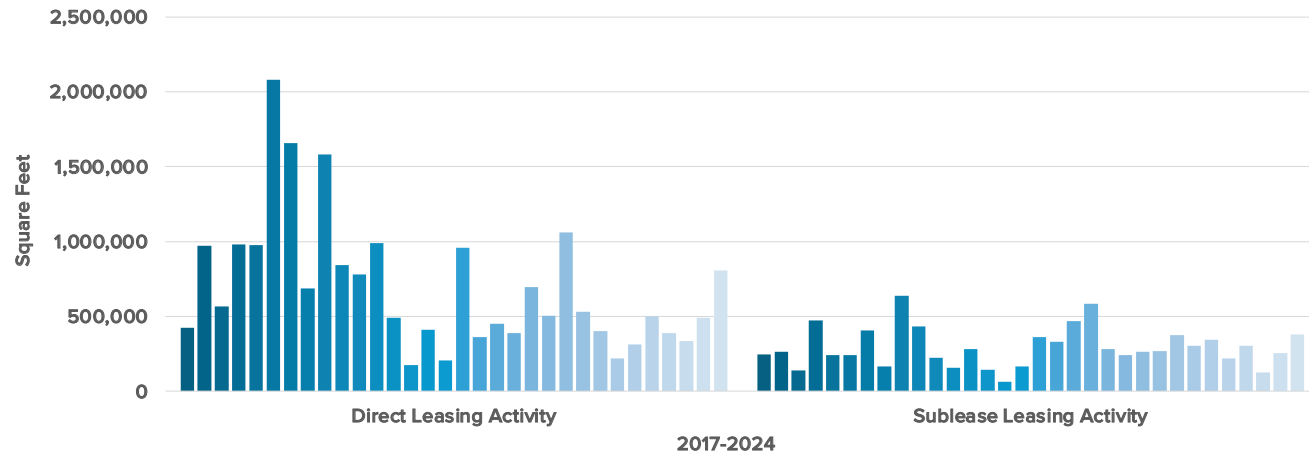
In a normal business cycle, elevated office availability should have shifted by now. But the environment has changed. Commercial real estate is undergoing a transformation - likely altering this pattern and making a range of different outcomes very possible.

As such, we are no longer relying on a return to historical trends.



OFFICE PERSPECTIVE

BOSTON OFFICE QUARTERLY LEASING ACTIVITY



Boston Office

	Q4 2024	Q4 2023
VACANCY RATE (%)	18.5%	15.7%
YTD Net Absorption (SF)	(315,472)	(1,034,384)
Asking Rent (\$/SF)	\$64.18	\$63.37
Sublease Space (SF)	3,696,983	4,689,121

Cambridge Office

	Q4 2024	Q4 2023
VACANCY RATE (%)	16.8%	10.1%
YTD Net Absorption (SF)	(418,152)	(375,750)
Asking Rent (\$/SF)	\$78.21	\$79.51
Sublease Space (SF)	1,104,176	1,220,811

Suburban Office

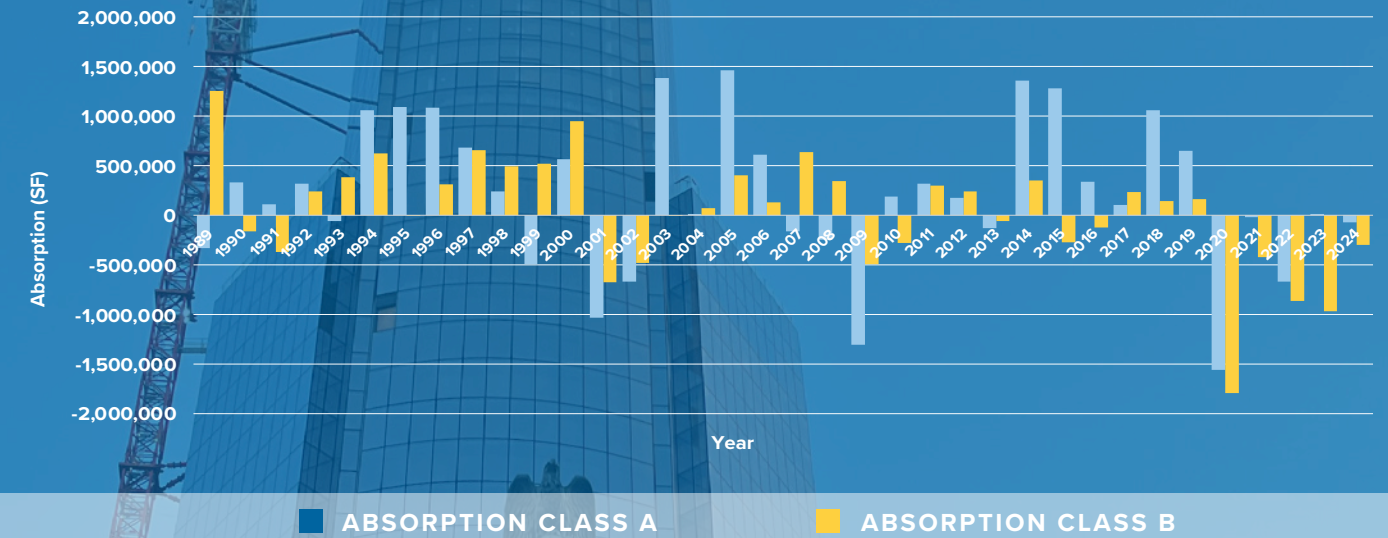
	Q4 2024	Q4 2023
VACANCY RATE (%)	19.9%	16.4%
YTD Net Absorption (SF)	(1,936,172)	(3,921,587)
Asking Rent (\$/SF)	\$27.31	\$26.10
Sublease Space (SF)	5,530,846	5,393,013

ARTICLES LIKE [this one](#) have become a weekly occurrence – heralding a dearth of trophy-class new construction – and pent-up demand from deep-pocketed companies clamoring for views and amenities. This uptick in leasing activity is notable – and something we’ve seen play out in Boston, as evidenced by deals such as [Jones Day’s commitment to South Station](#) and the opening of [Deloitte’s new office at Winthrop Center](#).



HOWEVER, leasing activity is only half of the equation. For a more accurate picture, we look to overall absorption – which is still negative. Is it *less negative* than last year? Yes.

BOSTON OFFICE ABSORPTION BY CLASS



THE DELIVERY of Amazon’s new 700,000-square-foot (SF) building in the Seaport impacted 2024’s absorption figure positively. But it’s important to remember that:

As [we mentioned last quarter](#), over 10 million square feet (MSF) has become available in the city of Boston since 2020 – more than 15% of the overall Boston office market.

- 1 this deal was inked in 2021
- 2 building occupancy is not planned until 2027 and
- 3 absorption aggregates

In a typical cycle, and based on the five-year absorption average preceding COVID (750,000 SF annually), we are looking at the better part of 15 years to recover the office occupancy losses of the last four years.

BUT IF WE’RE NO LONGER CONFIDENT IN THE RETURN TO CYCLICAL TRENDS, WILL IT REALLY TAKE 15 YEARS? IS THIS THE END GAME?

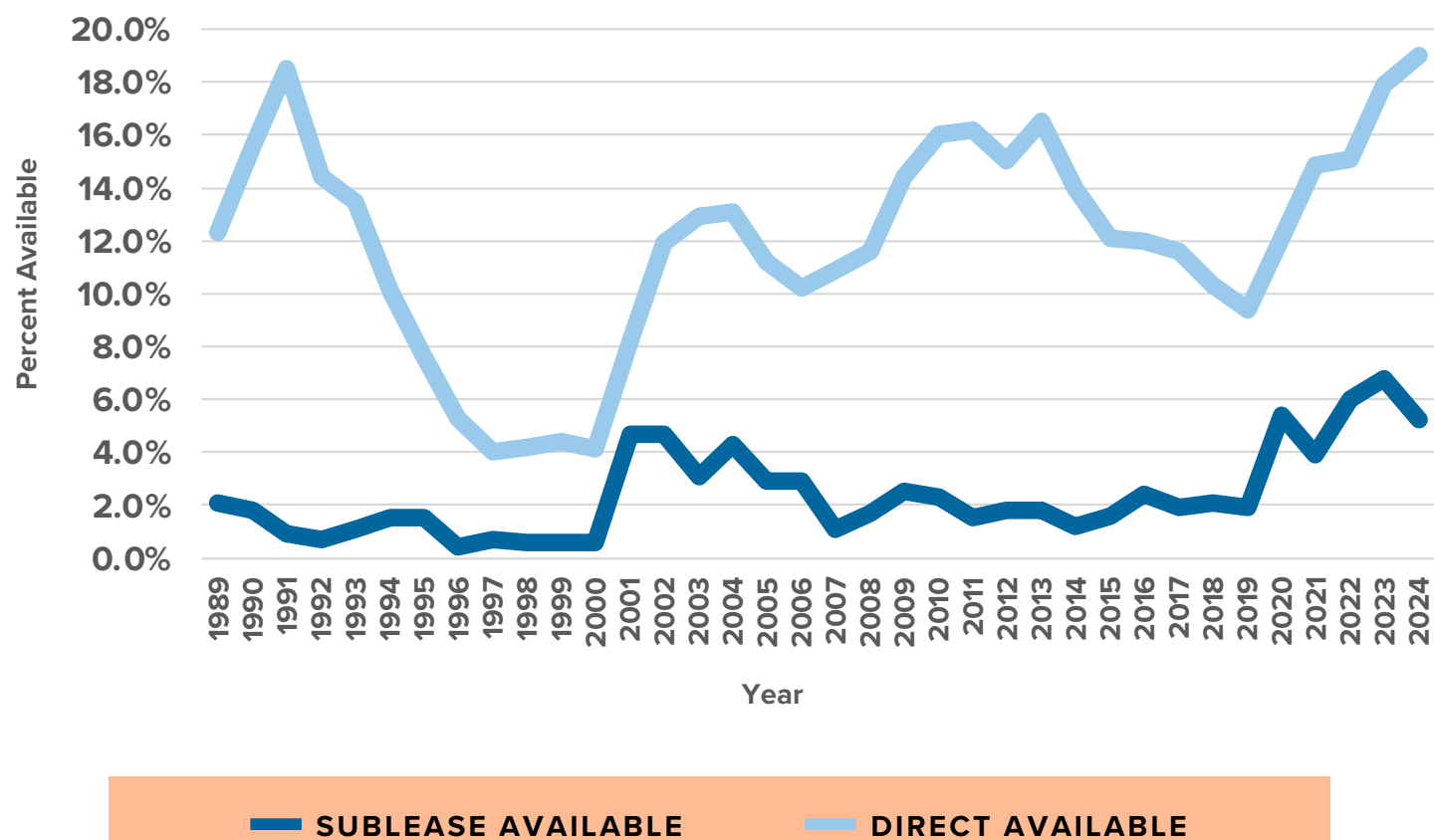
THE TRUTH IS THAT NO ONE KNOWS WHAT THE FINAL PLAYOUT OF REMOTE WORK WILL LOOK LIKE.





OFFICE PERSPECTIVE

BOSTON OFFICE: DIRECT VS. SUBLEASE AVAILABILITY (%)



SUBLEASE AVAILABILITY declined throughout 2024, down 1.6 percentage points year-over-year to 5.2%. Some view this as a harbinger of a rebound.

As we noted last quarter, a slowdown in the addition of sublease space to the market is certainly helpful, but the dip is largely attributable to sublease expirations and subsequent conversions to direct availabilities – not to leasing activity. This is evidenced, in part, by a 1.1 percentage-point increase in direct availability (to 19.0%) over the last 12 months.

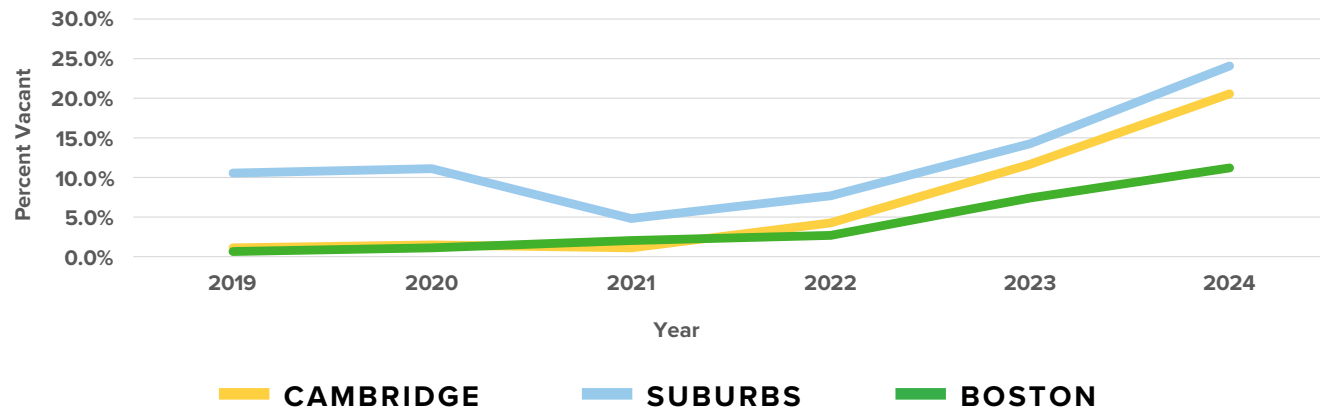
AT PERRY CRE.

WE THINK IT'S IMPORTANT TO NOTE THE FOLLOWING: the space we are talking about is space the original tenant didn't want. In many cases, it's space that remained unleased, even at a discounted rate. Now it's offered on a direct basis – at direct asking rents. This begs further consideration – particularly given the elevated and rising cost of improvements.



LAB PERSPECTIVE

OVERALL LABORATORY VACANCY RATES



Boston Lab

	Q4 2024	Q4 2023
VACANCY RATE (%)	11.2%	7.4%
YTD Net Absorption (SF)	262,867	(132,561)
Asking Rent (\$/SF NNN)	\$54.49	\$54.21
Sublease Space (SF)	640,147	347,100

Cambridge Lab

	Q4 2024	Q4 2023
VACANCY RATE (%)	20.5%	11.6%
YTD Net Absorption (SF)	(915,082)	(1,014,490)
Asking Rent (\$/SF NNN)	\$79.59	\$83.52
Sublease Space (SF)	1,697,745	1,537,324

Suburban Lab

	Q4 2024	Q4 2023
VACANCY RATE (%)	24.0%	14.2%
YTD Net Absorption (SF)	(163,235)	(66,523)
Asking Rent (\$/SF NNN)	\$48.39	\$49.98
Sublease Space (SF)	725,758	639,751

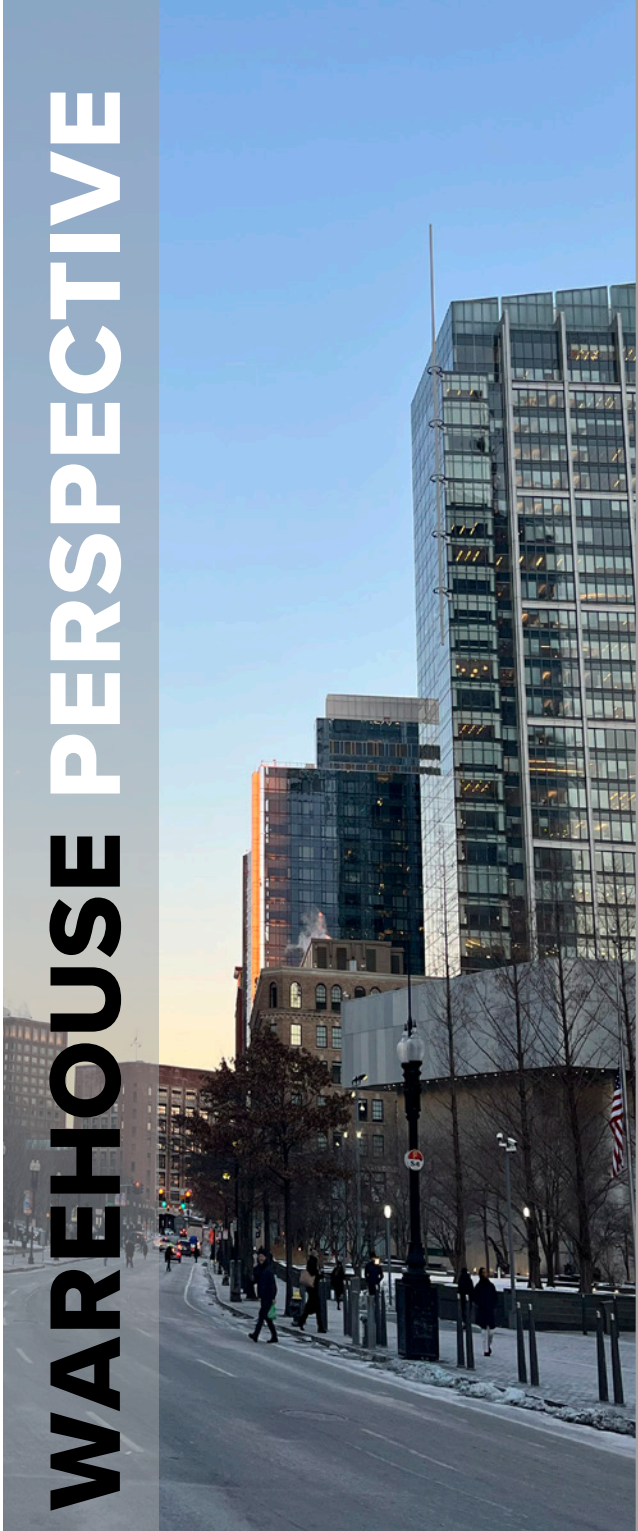
NOWHERE is the bucking of historical trends more evident than in the region's lab market. The vacancy spike over the last two years isn't really news anymore. An increase in construction costs – driven by inflation and the rising cost of materials – is partly to blame.

Some see the increased availability as a bright spot for start-ups – which had far fewer options just three years ago. Others see it as a correction in an overheated market.

There is truth in all these perspectives. But what's missing from the conversation is this: the underlying change in venture capital (VC) company creation. Historically, returns on IPOs made up for the underperformers in a VC portfolio – leading to a “growth at all costs” mentality. This fueled the regional lab market (and tech market) for over a decade.

NOW, there is a focus on enterprise value and efficient growth strategies. This means the days of rapid expansion and subsequent takedown of large blocks of space are likely behind us (at least for now).

WAREHOUSE PERSPECTIVE



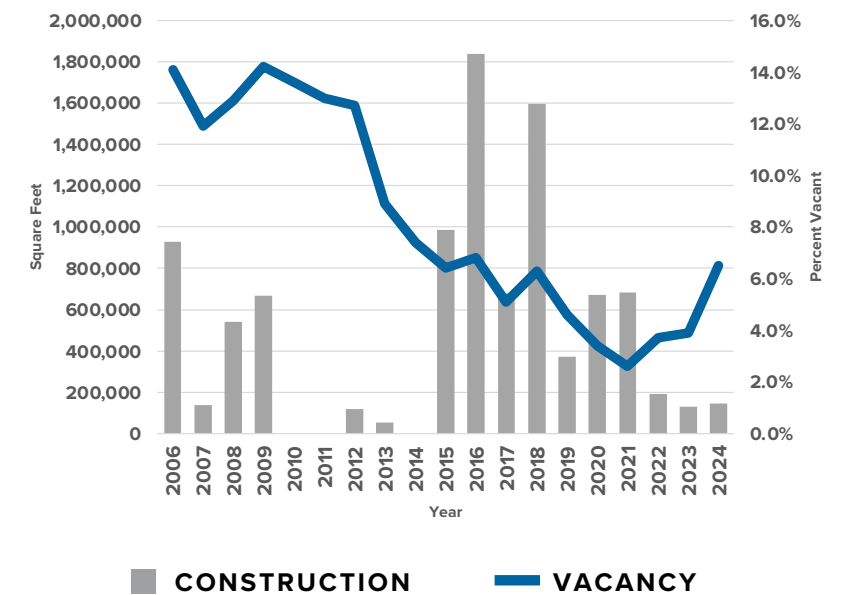
THE WAREHOUSE SECTOR reached a historically low vacancy rate (2.6%) at year-end 2021. As we close out 2024, the construction surge has slowed, and vacancy has risen for the third consecutive year (to 6.5%). This points to a slowdown in demand.

Looking ahead, we anticipate the following critical influences on the warehouse market:

- 1 Advancements in AI
- 2 The potential of tariffs and geopolitical fragmentation to disrupt established trade flows

This means that just like in the office and lab markets, we must start interpreting data through the lens of structural shift, rather than established trends.

WAREHOUSE VACANCY VS. NEW CONSTRUCTION



Warehouse

	Q4 2024	Q4 2023
VACANCY RATE (%)	6.5%	3.9%
YTD Net Absorption (SF)	(1,811,433)	(1,286,634)
Asking Rent (\$/SF NNN)	\$8.20	\$7.89
Sublease Space (SF)	1,430,614	1,209,995

Flex Space

	Q4 2024	Q4 2023
VACANCY RATE (%)	8.1%	6.1%
YTD Net Absorption (SF)	(1,079,258)	(641,708)
Asking Rent (\$/SF NNN)	\$11.56	\$10.66
Sublease Space (SF)	958,433	722,967

Manufacturing

	Q4 2024	Q4 2023
VACANCY RATE (%)	4.8%	3.0%
YTD Net Absorption (SF)	(287,790)	(409,308)
Asking Rent (\$/SF NNN)	\$9.11	\$9.92
Sublease Space (SF)	182,524	155,823



91 Franklin Street | Boston, MA 02110 | perrycre.com



ASHLEY LANE
Senior Vice President
alane@perrycre.com

VICTORIA BOND
Marketing & Design Director
vbond@perrycre.com

DANIEL HILSON
Associate Director, Research & Strategy
dhilson@perrycre.com